FIRST CALIFORNIA REALTY, INC.

commercial & residential

July 2022

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The sky is not falling

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IN BRIEF: The sky is not falling, though it may feel that way right now. And, for good reason.

Sales Volumes are decreasing.

The Inventory of homes for sale remains very low.

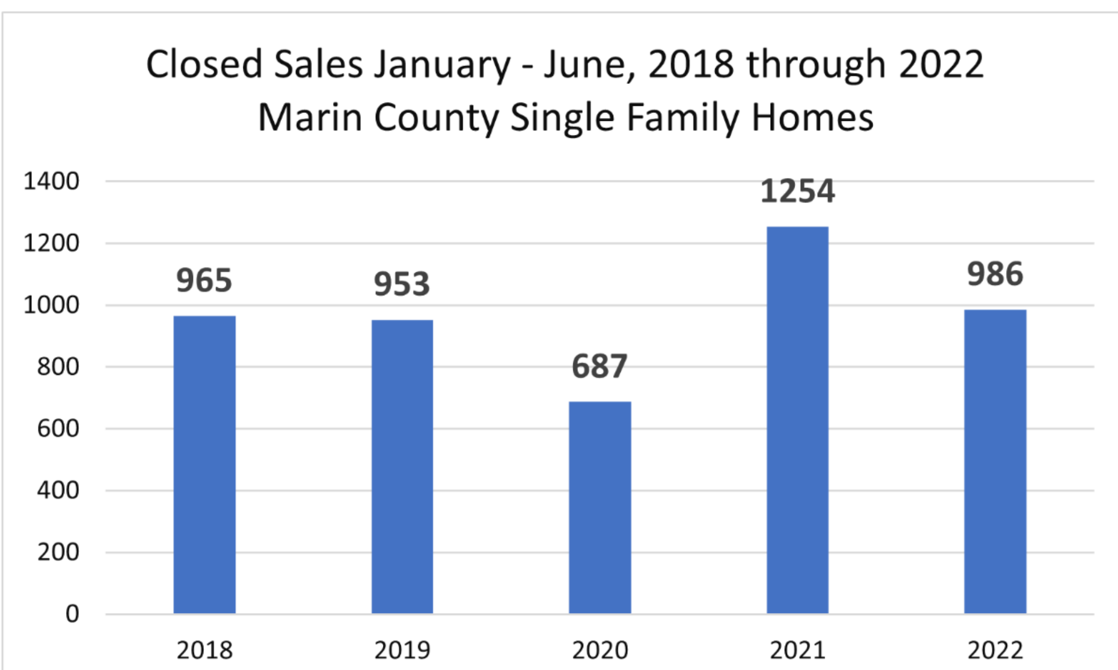
Interest Rates are rising at an incredible pace.

Inflation is the highest it has been since 1982.

Home prices have risen at a disconcerting rate.

Some economist say we're in a recession or soon will be.

These are all areas of concern. But let's put it into context with the following chart of closed sales in the first 6 months of years 2018 through 2022.



Despite all of the valid concerns about how the factors listed above could effect the real estate market, in the end, the market performed very logically. Pre-pandemic, in 2018 and 2019, sales volume was very robust - 965 sales in 2018 and 953 in 2019.

Then we learned of the global pandemic and life went on temporary hold. As agents, we didn't know what we could or could not do. Could we somehow host open houses? Could we show properties to buyers? How could we do our jobs for our clients and protect the public from exposure to this deadly virus? As expected, sales in 2020 dropped off a cliff, down **28%** from 2019.

Then the recovery began. The real estate industry learned how to help buyers and sellers conduct their business with minimal risks. The federal reserve, understanding how important the real estate market is to any economic recovery, took steps to quickly lower interest rates. The market surged, with sales up by **82.5%** in the first half of 2021 compared with the same time period in 2020.

That bring us to June of this year. We sold 986 Marin County homes in the first half of 2022, exceeding both pre-pandemic years. What now? At the end of this newsletter, we will review some expert predictions for future home appreciation, housing inventory, interest rates and more.

MARKET TRENDS
Q2 2021 - Q2 2022

MARIN COUNTY SINGLE FAMILY DETACHED HOMES | QUARTERLY TRENDS 2021 - 2022

City	Homes Sold Q2 - 2021	Homes Sold Q2 - 2022	% Change	Ave. DOM* Q2 - 2021	Ave. DOM* Q2 - 2022	Median Price Q2 - 2021	Median Price Q2 - 2022	% Change
Belvedere	14	9	-36%	85	19	$3,727,000	$4,714,000	26%
Corte Madera	31	34	10%	19	15	$1,835,000	$2,301,000	25%
Fairfax	37	24	-35%	16	14	$1,337,000	$1,547,000	16%
Greenbrae	18	11	-39%	17	17	$1,918,000	$2,479,000	29%
Kentfield	27	20	-26%	18	12	$2,853,000	$3,768,000	32%
Larkspur	26	16	-38%	13	20	$2,205,000	$2,980,000	35%
Mill Valley	129	97	-25%	22	13	$2,341,000	$2,630,000	12%
Novato	181	138	-24%	21	16	$1,267,000	$1,384,000	9%
Ross	14	11	-21%	37	16	$5,132,000	$4,013,000	-22%
San Anselmo	83	56	-33%	19	11	$1,700,000	$2,061,000	21%
San Rafael	154	134	-13%	22	15	$1,500,000	$1,737,000	16%
Sausalito	19	19	0%	47	11	$3,068,000	$3,409,000	11%
Tiburon	45	32	-29%	28	21	$3,487,000	$4,631,000	33%
Marin County	800	631	-21%	23	15	$1,713,000	$2,033,000	19%

* DOM = Days on Market, or the number of days from listing to contract with all contingencies removed.

MARIN COUNTY SINGLE FAMILY DETACHED HOMES | QUARTERLY TRENDS 2021 - 2022								
City	New Listings Q2 - 2021	New Listings Q2 - 2022	% Change	SP/LP Ratio * Q2 - 2021	SP/LP Ratio * Q2 - 2022	MSI * Q2 - 2021	MSI * Q2 - 2022	% Change
Belvedere	10	11	10%	100%	105%	1.7	4.2	147%
Corte Madera	26	31	19%	109%	115%	0.5	0.6	20%
Fairfax	30	15	-50%	112%	110%	0.5	0.9	80%
Greenbrae	12	7	-42%	109%	112%	0.5	0.8	60%
Kentfield	31	15	-52%	102%	111%	0.8	0.8	0%
Larkspur	34	16	-53%	103%	108%	0.6	0.7	17%
Mill Valley	118	91	-23%	108%	112%	0.5	0.7	40%
Novato	143	128	-10%	107%	111%	0.4	0.5	25%
Ross	18	6	-67%	100%	100%	1.4	1.2	-14%
San Anselmo	74	44	-41%	111%	115%	0.4	0.6	50%
San Rafael	154	136	-12%	107%	114%	0.6	0.9	50%
Sausalito	20	16	-20%	103%	117%	1.1	0.6	-45%
Tiburon	34	34	0%	104%	108%	1.0	1.0	0%
Marin County	737	579	-21%	106	111	0.6	0.7	17%

* SP/LP Ratio = Sales Price to List Price Ratio | MSI = Months Supply of Inventory, or how many months it would take to sell all available listings given the current rate of sale.

JUNE 2022 SUMMARY

In the second quarter, closed sales and new listings both decreased by the same **21%** year-over-year. The continuing decrease in housing inventories reduced the average number of days from listing to sale (with all contingencies removed) from **23** days to **15**, and is keeping the upward pressure on home prices. In Q2, the median sales price of a single-family detached home in Marin increased by **19%** compared with Q2 2021. The month's supply of available listings increased from **0.6** months to **0.7,** indicating that we are still in an extreme seller's market.

JUNE MARKET ACTIVITY REPORT

Property Sales (Sold and Closed)
In June, there were 211 closed sales, down **27%** from 289 in June 2021 and **3.7%** lower than the 219 sales in May.

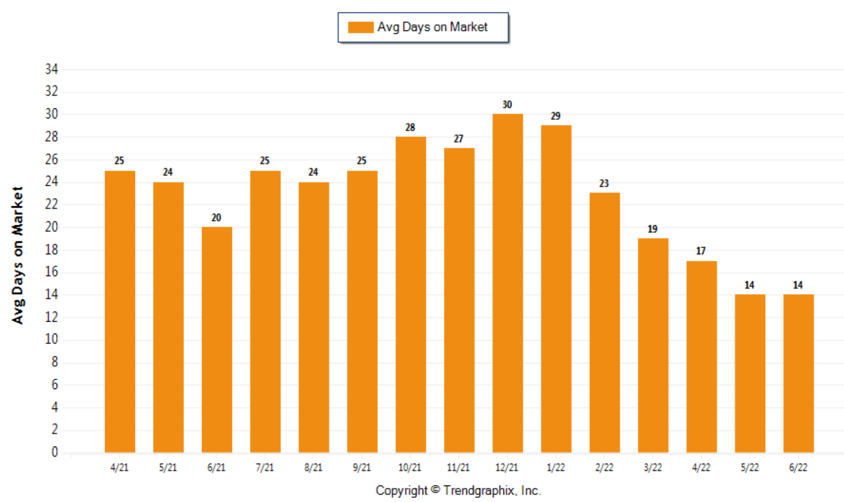
Current Inventory (For Sale)
Versus last year, the total number of properties available in June was higher by 49 units or **30.1%**. This year's inventory increase means that buyers who waited to buy may have a larger selection to choose from. The June housing inventory was up **51.4%** compared to May of this year.

Property Under Contract (Pended)

There was a decrease of **14.3%** in pended properties in June, with 180 properties versus 210 in May. June pended property sales were **27.1%** lower than at this time last year.

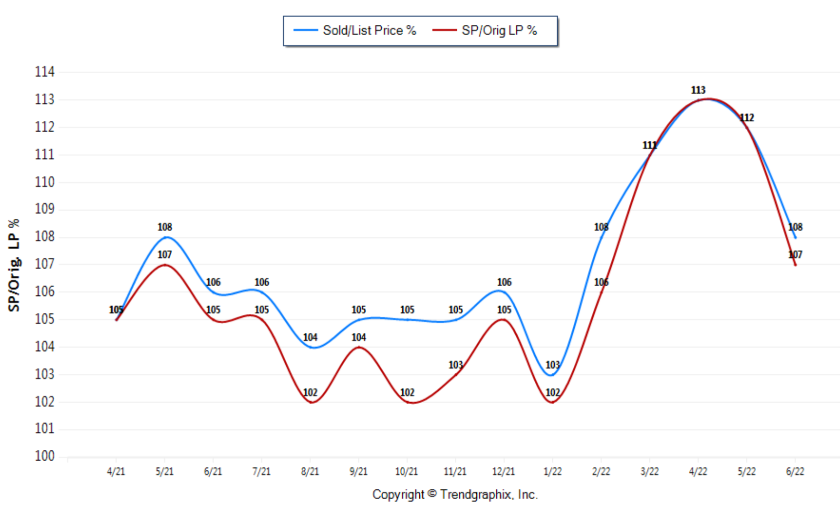
New Listings

New listings decreased from 210 in May to 156 in June, down **25.7%**. June New Listings were **31.3%** lower than in June of 2021.



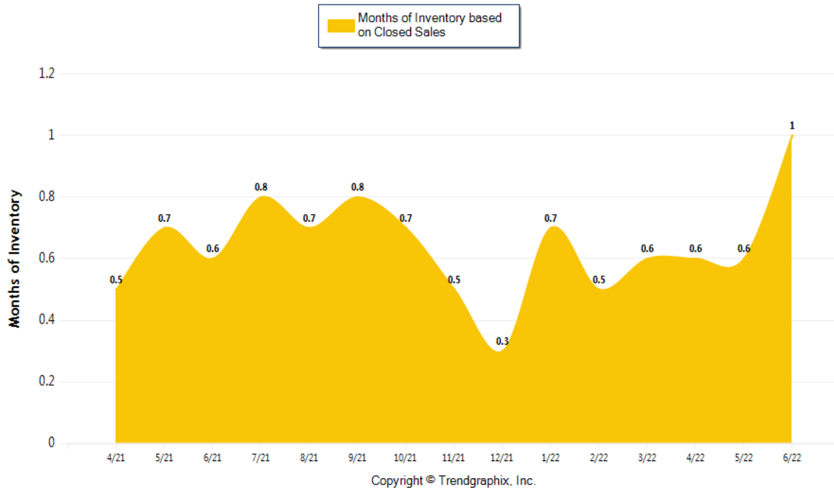
The Days on Market Shows Downward Trend

The average Days on Market (DOM) shows how many days the average property is on the market before it sells. An upward trend in DOM tends to indicate a move towards a Buyer's market; a downward trend indicates a move towards a Seller's market. The DOM for June was **14**, the same as the previous month, and down **30%** from **20** days in June of last year.



The Sold/Original List Price Ratio Shows a Downward Trend

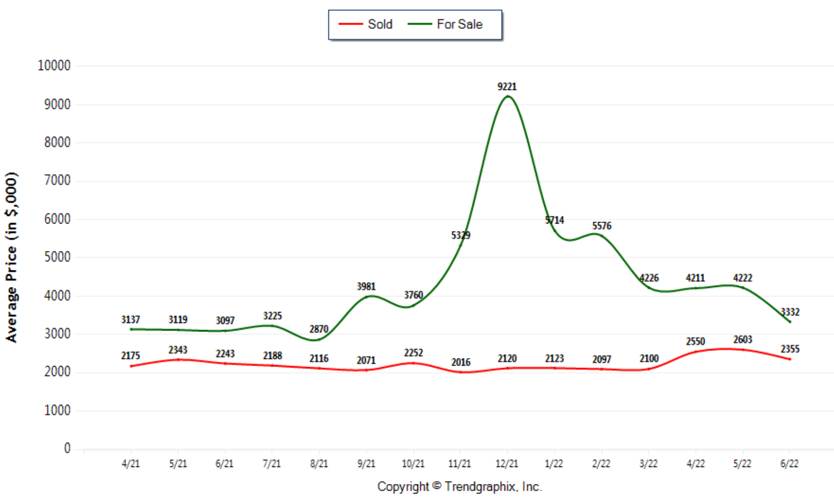
The Sold Price vs. Original List Price reveals the average amount that sellers are agreeing to come down from their original list price. The lower the ratio is below 100% the more of a Buyer's market exists. A ratio at or above 100% indicates more of a Seller's market. In June, the Sold Price vs. Original List Price of **107%** was down **4.5%** from May and up **1.9%** from June of last year. The blue line represents the Sold Price vs. the list price at the time offers were accepted with all contingencies removed. In June, homes sold for **108%** of the list price at the time offers became non-contingent.



A comparatively lower Months of Inventory is more beneficial for sellers, while a higher Months of Inventory is better for buyers.

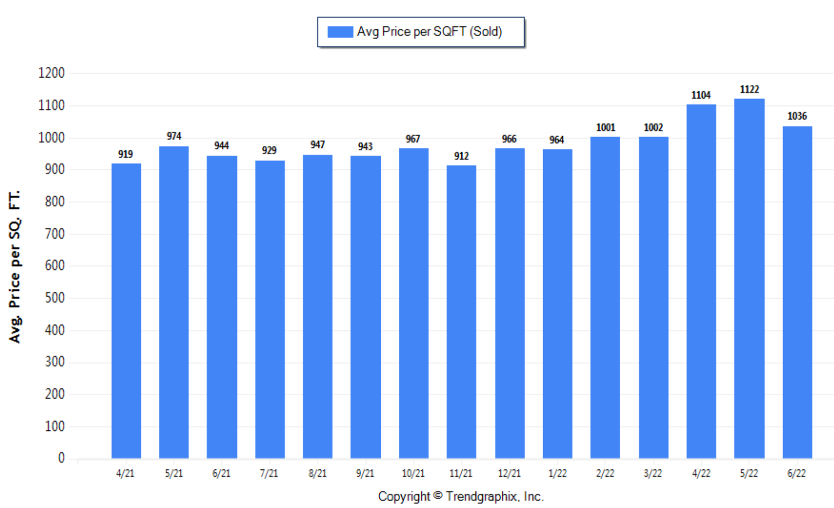
Buyer's market: more than 6 months of inventory
Seller's market: less than 3 months of inventory
Neutral market: 3 – 6 months of inventory

Months of Inventory based on Closed Sales
The June 2022 Months of Inventory based on Closed Sales of **1** month was up by **66.7%** compared to last June and compared to May. June 2022 was Seller's market.



The Average For Sale (list) Price is Depreciating*
The Average For Sale (list) Price in June was $3,332,000, up **7.6%** from $3,097,000 in June of 2021 and down **21.1%** from $4,222,000 in May.

The Average Sold Price is Neutral*
The Average Sold Price in June was $2,355,000, up **5%** from $2,243,000 in June of 2021 and down **9.5%** from $2,603,000 in May.
* Based on 6 month trend – Appreciating/Depreciating/Neutral

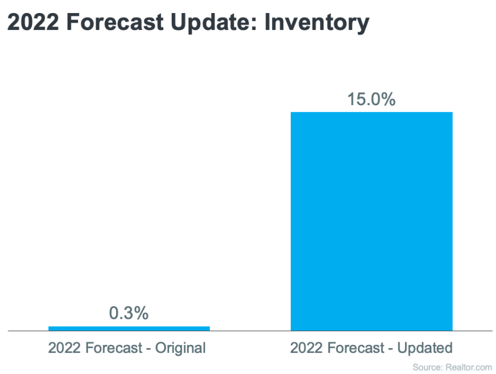


The Average Sold Price per Square Foot is Neutral*

The Average Sold Price per Square Foot is a great indicator for the direction of property values. Since Median Sold Price and Average Sold Price can be impacted by the 'mix' of high or low end properties in the market, the Average Sold Price per Square Foot is a more normalized indicator of property values trends. The June 2022 Average Sold Price per Square Foot of $1036 was down **7.7%** from $1122 in May and up **9.7%** from $944 in June of last year.
* Based on 6 month trend – Appreciating/Depreciating/Neutral

Inventory Update

The surge in sales during the 2021 market recovery left us with very little inventory and, along with historically low interest rates, thrust us into the extreme seller's market with which buyers have been struggling - bidding wars with almost every offer they write, making dangerous offers with no contingencies, and offering prices well above list price. But that appears to be changing.

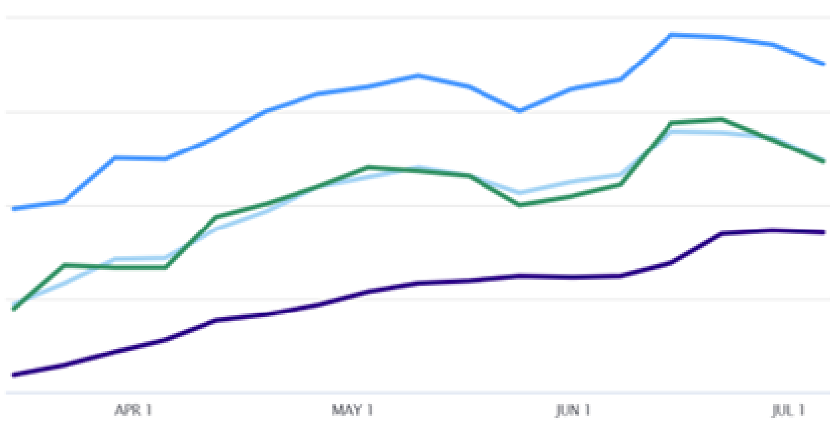


The National Association of Realtors just revised their original projection that inventories would increase by a minuscule **0.3%** in 2022 to an increase of **15.0%**! If correct, it would mean less competition for homes, fewer multiple offers, and less upward pressure on home prices.

In some areas, this is due in part to a slight increase in listing activity. But it is more the result of decreasing sales volume due to rising rates and buyer fatigue. Nationally there were, on average, 5.5 offers per listing in April, 5 in May, and 4.2 in June. Some sellers are asking if they should take their homes off the market now and come back on after conditions improve. Unfortunately, for sellers, most of the evidence seems to support the conclusion that current trends will continue to weaken the seller's market, transitioning first to a neutral market and, eventually, to a buyer's market. So our best advice right now is to stay the course, have your home in excellent showing condition and make sure that you are priced right for today's market.

CURRENT MORTGAGE INTEREST RATES

as of July 13th



Current mortgage rates

30 year fixed	5.67%
15 year fixed	4.87%
10 year fixed	4.86%
5/1 ARM	4.27%

Mortgage Rate Projections

June 2022

Quarter	Freddie Mac	Fannie Mae	MBA	NAR	Average of All Four
2022 4Q	5.0	5.0	5.0	5.3	**5.07%**
2023 1Q	5.0	5.0	5.0	5.3	**5.07%**
2023 2Q	5.0	4.9	5.0	5.4	**5.07%**
2023 3Q	5.0	4.8	4.8	-	**4.86%**

Here are the most current rate predictions from Freddie Mac, Fannie Mae, the Mortgage Banker's Association and the National Association of Realtors. On average their predictions are for rates to level off just above 5% and drop slightly by the third quarter of 2023.

SUMMARY

The market transition is continuing to unfold. The number of available homes for sale, though still quite low, is slowly increasing, due primarily to the rise in interest rates and the fact that some buyers are just tired of making offer after offer while continuously losing out to buyers with all cash, fewer contingencies, or higher offering prices. As inventories continue to increase, we should begin to see less competition, fewer bidding wars, and less upward pressure on prices. In certain areas, we will likely see some home price depreciation. But, for the majority of properties, prices will decelerate as home appreciation eases back to historic norms of around 5% per year.

A major factor in the market that is helping to keep demand strong is the "Millennial Effect." Millennials represent the largest generation next to baby boomers and are now moving through their peak buying years. A recent National Association of Realtors poll revealed that Millennials make up 81% of first-time buyers and 41% of all buyers.

According to Realtor.com, "most experts don't believe the market is in a bubble or that a crash is in the cards like during the "Great Recession." The nation is still suffering from a housing shortage that has reached crisis proportions at a time when Millennials are reaching the age when they start to consider home ownership. That's likely to keep prices high."

I will continue to monitor market trends and report back to you next month. In the meantime, enjoy the warm weather, and please remember that I always appreciate your referrals!

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SUMMARY

To buyers and sellers it looks like the real estate market is moving forward at breakneck speed - homes are selling faster than last year, multiple offers are still plentiful, and prices are appreciating at a rapid pace. That is all because of the continuing supply/demand imbalance. In reality, the market is contracting. Yes, listings were down by 49% but sales were also down by 29% which means that the real estate market is not contributing to economic growth to the extent it has since the recovery began. This was an intended consequence of the actions the Fed is taking to curb inflation. Here are some quotes from industry experts about the relationship between interest rates and the housing market:

> While higher short-term interest rates will push up mortgage rates, I expect some of this impact to be mitigated eventually through lower inflation. . . . Thus, **I expect the 30-year fixed mortgage rate to continue to rise, although we aren't likely to see the big jumps that occurred over the past few weeks.**
>
> **- Nadia Evangelou,** Director of Forecasting, NAR

> Based on the current estimate for the peak Fed Funds rate (3.25% to 4.0%), **the 30-year fixed mortgage will likely peak at between 5.0% and 5.7%. There is some variability in the relationship, so we might see rates as high as the low 6% range.** (This all depends on inflation and the Fed Funds rate - but I don't expect rates to move much higher than the current rate - although 6% is possible).
>
> **- Bill McBride,** Author, Calculated Risk Blog

> With rates rising and expected to rise through 2023, it makes sense to obtain a purchase or refinance mortgage if you are in good standing.
>
> **- Len Kiefer,** Deputy Chief Economist, Freddie Mac

> History suggests that when rates rise, there is an initial bump in home prices as many move quickly to buy a home before rates increase further. But after that period, home prices slow. Freddie Mac analysis shows that a 1% increase in mortgage rates results in home price appreciation that is 4 percentage points lower. For instance, a 1% increase in mortgage rates would change home price growth from 11% to 7%.
>
> **- Freddie Mac**

We are certainly living in interesting times. Political unrest and economic uncertainty in the world make it difficult to predict market trends, and the opinions of industry experts are constantly in revision. I will continue to track the market and report back to you in this monthly update. In the meantime, with summer right around the corner, we can all enjoy the vast variety of outdoor activities available in the Bay Area. And, since I always appreciate referrals, if you know of anyone who is thinking of buying or selling a home, I would be happy to meet with them and give them the same caring, professional service I provide to all of my past and current clients.

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